

**DATE:** May 13, 2015

**TO:** Thomas J. Bonfield, City Manager

**THROUGH:** Wanda Page, Deputy City Manager

**FROM:** Regina Youngblood, Human Resources Director  
Michele Cash, Human Resources Manager

**SUBJECT:** 2015 – 2018 Benefit Recommendations

### **Executive Summary**

The City of Durham offers a comprehensive benefits plan to include health and dental insurance, a vision plan, life and disability insurance, EAP, COBRA, flexible spending accounts (FSA) and healthcare reimbursement arrangement (HRA), and other all employee paid ancillary benefits. The benefits recommendations strive to maintain a competitive benefit offering at an affordable price while providing quality customer service.

The City has been successful in controlling costs by making changes to benefit plan designs and requiring high risk employees to participate in disease and case management programs. In addition, the City has wellness initiatives that are designed to educate employees about their health risks and providing resources to assist employees in making better decisions about improving their health. Over the last three years, the City has been able to maintain a no cost health option for employees with nominal increases to health and dental premiums even in the face of general industry medical trend increases of more than 8%.

An emphasis on controlling expense will always be a fundamental necessity in order to continuously provide affordable benefits to both employees and the City. Programs and changes in benefits design will be necessary in order for the City to maintain their reputation as having a strong offering.

For the 2015-2016 benefit plan year, dental premiums for employees and the City increased by 5%. As a self-insured dental plan, premium increases are a direct result of employee usage of the benefit and provider costs. Continuation of the benefit in-kind will require additional premium increases to maintain the current service level.

Staff recommends the following for the 2015-2018 benefit cycles.

### **City Paid Benefits**

Change from BCBSNC to AETNA for the City's health insurance offering. Aetna has proposed the introduction of a Duke Accountable Care Organization (ACO) Plan that is estimated to save the City approximately \$6.7million in health care claims over the three year benefit cycle assuming a 60% enrollment in the product. While the 60% enrollment may initially appear aggressive, more than 70% of the City's claims are paid to medical providers within the new network. In addition, Aetna will provide employees and retirees with products that mirror our current health offering to include disease and case management.

Change from BCBSNC to Delta Dental for the City's dental benefit offering. Delta Dental has two networks, the Delta Dental PPO and the Delta Dental Premier. Delta Dental's networks contain the largest network of dentists in Durham County and the State of North Carolina, with an estimated in-network savings of 52%. Their mission, "To improve the oral health of the communities we serve" offers a holistic approach to dental care with an emphasis on the link between effective oral care and overall health. The administrative fee is 6.4% higher than that offered by BCBSNC, however with the expansion of the network and the discounts offered the City should recoup the additional administrative fee through claims discounts.

Change from UNUM to Reliance Standard Life Insurance (RSLI) for the City's life and disability benefit offering. RSLI has offered the City a three year rate guarantee with an overall savings in premiums of \$116,000. RSLI will offer an open enrollment with no EOI and a waiver of premium on the life insurance benefit for employees out on disability. Further, the City will receive a 5% reduction from premiums on the Stop Loss contract if the City contracts with RSLI for the City's life and disability benefit offering.

Remain with RSLI for the City's stop loss insurance. Unlike other benefits that are contracted on a three year basis, Stop Loss Insurance is renewed annually. RSLI has quoted the City an annual renewal price of \$28.25 PEPM which is lower than the other bidders.

Remain with ComPsych for the City's EAP benefit offering. ComPsych has proposed an expansion of their services to include their Guidance Resources Online and Work/Life Services. Further, they are recommending a reduction in the number of EAP sessions from 12 to 8. At present, the City has never had an incident that required an employee to seek 12 sessions. The change in services will result in a savings for the City of \$.25 per employee per month or \$21,600 over three years.

Remain with P&A for COBRA administration. P&A offered the most competitive bid and there are currently no service issues with this vendor.

Remain with Laymon for Flexible Spending Account Administration and Health Reimbursement Account Administration. Laymon offered the most competitive bid and there are currently no service issues with this vendor.

## **Voluntary Benefits**

Change from Colonial to TransAmerica for the City's Worksite Benefit offering. TransAmerica has offered cost guarantee issue amounts and a two year guarantee issue open enrollment. Employees with current Colonial policies can continue those policies if they choose by moving from payroll deduction to direct bill.

Change from Community Eyecare to Superior Vision for the City's vision benefit offering. In addition to the eye examination and \$150 annual reimbursement for eyewear, Superior Vision offers significant discounts on eyewear and a lower monthly premium to employees. The tradeoff for the discounts and the lower premium will be that approximately 20% of current participants will have to identify a new vision provider to take advantage of the full benefits.

Remain with Liberty Mutual for the City's Auto and Homeowner benefit offering. Liberty Mutual offers a 12 month rate guarantee and offers comprehensive coverage at a competitive price.

Remain with Hyatt Legal for the City's prepaid legal benefit offering. Hyatt offers a competitive price with no disruption in services. Their attorney network is larger than the other providers and they have offered a three year rate guarantee.

Remain with Mattioli and Associates for the City's Long Term Care benefit offering. The majority of Long Term Care vendors have discontinued their products due to compliance and regulatory requirements. Mattioli and Associates was the only bid the City received for this product and the City has no service issues with this vendor.

## **Background**

On December 1, 2014 the City of Durham issued and advertised a Request for Proposals (RFP) for all benefit products. Submissions were due by 5:00 PM on January 8, 2015. In addition to issuing and advertising the RFPs, 79 RFPs were sent to vendors to include all existing contract holders and those that had inquired into providing services to the City.

Upon submission, all RFPs were sent to EO/EA for compliance approval.

As part of the evaluation selection process, a committee was created consisting of seven individuals from throughout the organization. Committee members represented the following areas: Human Resources, Finance, Risk Management, Public Safety, Water Management, Solid Waste, and EO/EA. In addition to the evaluation committee, the City's broker was also requested to evaluate the vendors separate from the Committee.

The evaluation committee and broker evaluated the committee based on the following criteria: cost, disruption, distinguishable benefits, mechanics, and network access.

Both the evaluations performed by the committee and the broker were considered for the final selection process and recommendation. To give proper consideration to the professional advice provided by the City's broker, the selection scores of the evaluation committee and the broker were weighted 60/40 with the greater weight associated with the broker.

## Issues/Analysis

### Health Care

Several factors continue to influence the cost of our health insurance premiums. High Cost Claimants continue to plague the City with 68 members incurring more than 32% of claims payments.

Further, expensive medications also place a significant cost upon the City with several months over the last year incurring more than 30% of the claims cost.

While the City has been focusing on case and disease management over the last year, poisoning and injuries replaced cancer as the number one top inpatient category which emphasizes a need to focus on safety during the upcoming year.

While the City has experienced some challenges this year controlling health care costs, preventive screenings and case management have improved due to several changes in plan design and communication and now are at or above industry average. Further, an objective of the 2014-2015 health plan was to modify plan design so medical loss ratio would be at 100% or less. Currently the ratio is 99%.

Employees did not have any trouble acclimating to the elimination of the Premium Health Plan over the last year and are enrolled in one of the remaining two options. These employees now share more of the cost of their health care needs with higher co-pays and deductibles. Further, the addition of a new tier, employee/children, saw a reduction in spouses on the health plan allowing a savings of approximately \$148K.

Due to increases in utilization, the City is recommending a 3% increase in health care premiums for both the City and employees. The increase will allow the City to maintain its current reserve levels. The City also recommends that we continue to offer an employee-only health plan option at no cost. This increase in premiums is significantly lower than the industry trend of 8%. The City also recommends that we differentiate healthcare premiums between those that do participate in the required wellness programs and those that do not.

## Monthly Rates

	<u>Employee Only</u>	<u>Emp/Spouse</u>	<u>Emp/Children</u>	<u>Family</u>
<b>Core Plan</b>				
<b>Total Cost</b>	\$589.42	\$1,009.40	\$952.75	\$1,658.30
<b>City Cost</b>	\$555.94	\$820.41	\$789.25	\$1,177.30
<b>City %</b>	94.32%	81.28%	82.84%	70.99%
<b>Employee Cost</b>	\$33.48	\$188.99	\$163.50	\$481.00
<b>Basic Plan</b>				
<b>Total Cost</b>	\$538.59	\$957.90	\$885.80	\$1,426.55
<b>City Cost</b>	\$528.59	\$820.41	\$789.25	\$1,177.30
<b>City %</b>	98.14%	85.65%	89.10%	82.53%
<b>Employee Cost</b>	\$10	\$137.49	\$96.55	\$249.25
<b>ACO Plan</b>				
<b>Total Cost</b>	\$526.47	\$901.60	\$851.00	\$1,481.20
<b>City Cost</b>	\$526.47	\$792.34	\$759.45	\$1,258.25
<b>City %</b>	100.00%	87.88%	89.24%	84.95%
<b>Employee Cost</b>	\$0	\$109.26	\$91.55	\$222.95

See Attachment #1

Due to the Affordable Care Act, the maximum out of pocket will not include deductibles and co-payments so City employees will experience a slight adjustment in this area. Further, the City will be required to offer health insurance upon hire to non-seasonal part time employees that work more than 30 hours per week.

### Dental Plan

Due to increases in utilization and cost, the City is recommending a 5% increase in dental care premiums for both the City and employees. As previously stated, staff further recommends moving dental providers from BCBSNC to Delta Dental for the City's self-insured plan. This change will increase the administrative fees over the existing carriers bid by \$.11 PEPM for the three year period. It is expected that the City will recoup the additional fees through expanded network discounts. In addition, Delta Dental will pay out of network providers directly for dental services, a practice that was discontinued by BCBSNC in 2014.

## Monthly Rates

	Total Cost	City Cost	City %	Employee Cost
Single	\$45.32	\$30.37	67%	\$14.95
Emp/Spouse	\$78.17	\$45.34	58%	\$32.83
Emp/Children	\$78.63	\$45.61	58%	\$33.02
Family	\$140.42	\$47.74	34%	\$92.67

See Attachment #2

## Basic Term Life Insurance

Under this recommendation the City's paid basic life insurance, supplemental insurance, and short and long term disability should be moved to RSLI. Currently the City provides a life insurance policy equal to one times the annual salary for all employees. By moving to RSLI, the City will save approximately \$116,000 in premiums over the next three years.

Employees will not experience challenges converting their existing supplemental and disability policies and RSLI will offer an open enrollment period with no evidence of insurability required. Further, they will waive premiums for employees out on disability leave.

See Attachment #3

## Stop Loss Insurance

Stop loss insurance protects the City against high dollar claims. The staff recommends that the City continue with the current carrier, RSLI. RSLI became the City's stop loss carrier in 2013 after the current carrier, BCBSNC proposed a significant increase in rates.

Stop loss insurance cannot be obtained based on a three year contract and must be renewed annually. Although the City has received a tentative rate increase of 12%, the official rate will not be provided to the City until July.

Rates are calculated based on the City's utilization of this benefit. During the last benefit year, the City experienced several high dollar situations requiring the carrier to pay out more than it received in premiums. RSLI agrees to control their rate increases in return for the City's broker, IBA, to bundle all its stop loss business with them. In addition, RSLI has also bid on the City's life/disability contract and if awarded, will offer the City a 5% reduction in stop loss premiums making the tentative increase 7%. See Attachment #4

## EAP

The City moved to ComPsych in 2013 after the discontinuation of their contract with Duke Occupational and Mental Health Services. Staff recommends the continuation of the relationship with ComPsych as the provider of the City's Employee Assistance Program.

Further, staff recommends the reduction of sessions from twelve to eight. The number of sessions the City grants is significantly above the norm and to date the City has never had anyone to reach the twelve sessions. In addition, it is recommended that the City expand include their Guidance Resources Online and Work/Life Services.

The reduction in sessions will reduce the fee from \$2.03 PEPM to \$1.78 PEPM. See [Attachment #5](#)

## COBRA

The staff recommends that the COBRA contract continue with P&A Group. They have submitted a proposal with no increase in premiums and a 3-year rate guarantee. Further, P&A has waived the \$500 annual fee in which they deduct notices generated during the plan year. See [Attachment #6](#)

## Flexible Spending Account & Health Reimbursement Account

The staff recommends the City continue its current relationship with the Laymon Group for continuation of administration of the Section 125 Flexible Spending Account Plan. Flexible spending benefits allow employees to pre-tax the cost of health, dental, and vision expenses and to set up pre-tax deductions for dependent care expenses. The plan offers employees the use of a debit card to pay for these services. In addition, the City also provides reimbursement of up to \$250 towards employees' deductibles if they complete the City's Health Assessment prior to the required deadline of December 31<sup>st</sup>.

Cost of administration for these services will be \$2.50 PPM with an HRA fee of \$10 per claims, significantly less than the other bidders. See [Attachment #7](#)

## Worksite Benefits

The staff recommends the City change its WorkSite Benefits carrier to TransAmerica. Worksite benefits currently being offered to the City are accident, cancer, critical illness, term, whole and universal life, hospital confinement and short term disability. The City no longer offers new individual short term disability policies as it is more affordable to use the City's group short term disability offering.

TransAmerica has offered cost guarantee issue amounts and a two year guarantee issue open enrollment. Employees with current Colonial policies can continue those policies if they choose by moving from payroll deduction to direct bill.

The City is also recommending that the new vendor reduce the number of policies that is currently being offered from 249 to less than 10. This change should mitigate confusion among the employees, better understand the benefits they elect, and maintain an understanding of when they are eligible for file claims for reimbursement. Further, it has

been requested that they provide an annual communication to employees reminding them of any existing policies. [See Attachment #8](#)

#### Vision Plan

Staff recommends moving vision to Superior Vision for the City's voluntary benefit. Superior Vision offered one of the most competitive proposals based on the benefits and cost. The plan provides significant discounts for eyewear, although the network is smaller than the City's current vision provider. Superior's network focus concentrates on retail chains.

Under the City's current health plan a routine eye examination is covered annually at 100%. In addition, Superior Vision also has an annual eye examination included in their vision benefit also paid at 100%. Changing carriers may have some disruption with employees and dependents having to change their vision providers. [See Attachment #9](#)

#### Liberty Mutual

The staff recommends the City continue its current relationship with Liberty Mutual. Liberty Mutual provides auto and homeowner insurance through payroll deduction. As a partner for more than six years, they offer coverage at competitive rates and a one year rate guarantee. [See Attachment #10](#)

#### Pre-Paid Legal

The staff recommends the City continue its current relationship with Hyatt Legal. Hyatt Legal is a voluntary benefit in which employees can enroll for assistance with their legal needs. Hyatt has proposed no premium increased and a three year rate guarantee. The carrier offers an expansive network with no gatekeeper. [See Attachment #11](#)

#### Long term Care

The staff recommends the City continue its current relationship with Mattioli and Associates for its voluntary Long Term Care benefit. Due to the reduction of Long Term Care carriers, there were no other bidders for this benefit.

Currently 27 employees have purchased a New York Life Long Term Care plan. Mattioli and Associates submitted a proposal offering five benefit plan options for Long Term Care. See [Attachment #12](#)

#### Communication

Based on the number of recommended changes, staff recommends a mandatory open enrollment where all employees will be required to log into the existing enrollment system and make their benefit selections.



In order to ensure employees understand the benefit offering, open enrollment presentations throughout the City will be provided as well as meetings covering retiree health. The City's HR Liaisons will be educated by staff to ensure they are also able to assist employees

Further, it is recommended that all employees that currently have voluntary benefits meet one-on-one with enrollers to ensure that they understand their current benefit and how to file claims.

An open enrollment booklet will be provided to all employees outlining the new benefit offering as well as Frequently Asked Questions.

### **Alternatives**

An alternative to the health and dental recommendation would be to continue the City's relationship with BCBSNC. This alternative would result in less disruption for employees however would come at a higher price.

Further, the City could continue its existing relationship with Colonial assuming they will revise their benefit offering and regularly communicate to the employees their eligible benefits.

Lastly, the City could use United Healthcare for the vision product. This vendor also offers significant benefit discounts over the existing carrier.

### **Financial Impacts**

#### **Health**

As a self-insured plan, the financial impact of the health recommendation relates to the monthly premium increase that the City, employees and retirees will be required to pay for their health insurance for the 2015-2016 benefit cycle to maintain current insurance reserve levels. Based on the usage of the benefit and other administrative fees, it is expected that the City will require a 3% increase in premiums. The increase in premiums excludes the Employee Only/Basic Insurance premium which will continue to be offered to employees for no charge. Further, the employee health premiums can be used to steer employees to the new ACO, allowing both the employees and City to benefit by the reduced contractual rate.

If the City experiences the 60% enrollment in the ACO, the savings to the City over the next three years will be approximately \$6.7 million. After the initial implementation year, consideration for plan design changes may be necessary to compliment the new model.

#### **Dental**

The self-insured dental plan will require a 5% premium increase to both the City and the employees to cover the cost of claims and administrative expenses. Increased provider costs and utilization are the drivers of this change.

### Life and Disability

The change from UNUM to RSLI will result in a \$116,000 savings to the City over the next three years.

### Stop Loss

The continuation of the City's stop loss contract with RSLI will result in a tentative increase of premiums of 12.3% or \$96,300. If the City utilizes RSLI for life and disability insurance, the increase in premiums will be reduced by \$53,000 for an overall increase of \$43,300.

### EAP

The change in benefit offering through the reduction of on-site visits will provide a \$21,600 premium reduction over the next three years.

### EO/EA Summary

The Equal Opportunity/Equity Assurance Department reviewed the proposals submitted by the following benefit providers and have determined that they are in compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

### **SDBE REQUIREMENTS**

No M/SDBE or W/SDBE goals were set.

Mattioli & Associates is a certified MSDBE firm.

Superior Vision will subcontract to the following certified firm:

<b>Firm</b>	<b>ID</b>	<b>City/State</b>	<b>Amount</b>	<b>% of Contract</b>
Progressive Business Solutions	MSDBE	Raleigh, NC	5,000.00	2%

### **WORKFORCE STATISTICS**

Workforce statistics for Aetna Life Insurance Company are as follows:

Total Workforce	597	
Total Females	491	(82%)
Total Males	106	(18%)
Black Males	16	(3%)
White Males	64	(11%)
Other Males	26	(4%)
Black Females	95	(16%)
White Females	314	(52%)
Other Females	82	(14%)

Workforce statistics for Delta Dental of North Carolina are as follows:

Total Workforce	14	
Total Females	10	(71%)
Total Males	4	(29%)
Black Males	0	(0%)
White Males	4	(29%)
Other Males	0	(0%)
Black Females	2	(14%)
White Females	8	(57%)
Other Females	0	(0%)

Workforce statistics for Reliance Standard Life Insurance Company are as follows:

Total Workforce	1862	
Total Females	1218	(65%)
Total Males	644	(35%)
Black Males	35	(2%)
White Males	539	(29%)
Other Males	70	(4%)
Black Females	195	(10%)
White Females	854	(46%)
Other Females	169	(9%)

Workforce statistics for ComPsych Corporation are as follows:

Total Workforce	526	
Total Females	366	(70%)
Total Males	160	(30%)
Black Males	9	(2%)
White Males	117	(22%)
Other Males	34	(7%)
Black Females	85	(16%)
White Females	238	(45%)
Other Females	43	(8%)

Workforce statistics for P & A Administrative Services, Inc. are as follows:

Total Workforce	103	
Total Females	68	(66%)
Total Males	35	(34%)
Black Males	1	(1%)
White Males	33	(32%)
Other Males	1	(1%)
Black Females	7	(7%)
White Females	52	(50%)
Other Females	9	(9%)

Workforce statistics for the Laymon Group, LLC are as follows:

Total Workforce	4	
Total Females	2	(50%)
Total Males	2	(50%)
Black Males	0	(0%)
White Males	2	(50%)
Other Males	0	(0%)
Black Females	0	(0%)
White Females	2	(50%)
Other Females	0	(0%)

Workforce statistics for Transamerica Life Insurance Company are as follows:  
(Consolidated)

Total Workforce	11861	
Total Females	6412	(64%)
Total Males	5449	(46%)
Black Males	323	(3%)
White Males	4555	(38%)
Other Males	571	(5%)
Black Females	792	(7%)
White Females	4925	(41%)
Other Females	695	(6%)

Workforce statistics for Mattioli & Associates are as follows:

Total Workforce	6	
Total Females	5	(83.33%)
Total Males	1	(16.67%)
Black Males	1	(16.67%)
White Males	0	(0%)
Other Males	0	(0%)
Black Females	4	(66.66%)
White Females	1	(16.67%)
Other Females	0	(0%)

Workforce statistics for Superior Vision are as follows:

Total Workforce	287	
Total Females	203	(71%)
Total Males	84	(29%)
Black Males	11	(4%)
White Males	49	(17%)
Other Males	24	(8%)
Black Females	64	(22%)
White Females	79	(28%)

Other Females	60	(21%)
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Workforce statistics for Liberty Mutual Group are as follows:  
(Consolidated)

Total Workforce	619	
Total Females	374	(60%)
Total Males	245	(40%)
Black Males	32	(5%)
White Males	200	(32%)
Other Males	13	(2%)
Black Females	82	(13%)
White Females	270	(44%)
Other Females	22	(4%)

Workforce statistics for Hyatt Legal Plans (A MetLife Co.) are as follows:  
(Consolidated)

Total Workforce	2571	
Total Females	1183	(46%)
Total Males	1386	(54%)
Black Males	172	(7%)
White Males	773	(30%)
Other Males	441	(17%)
Black Females	305	(12%)
White Females	568	(22%)
Other Females	310	(8%)